

**AT A BUDGET RETREAT OF THE CITY COUNCIL OF THE CITY OF HAMPTON,
VIRGINIA, HELD IN THE LAWSON CONFERENCE ROOM, EIGHTH FLOOR, CITY
HALL, 22 LINCOLN STREET, ON WEDNESDAY, APRIL 6, 2005, AT 12:00 NOON**

The meeting was called to order by Vice Mayor Joseph Spencer at 12:05 p.m., and upon a roll call, the following answered as present: Randall A. Gilliland, Angela Lee Leary, Charles N. Sapp, Joseph H. Spencer, II, Turner M. Spencer, and Rhet Tignor. Ross A. Kearney, II, Mayor, arrived at 12:50 p.m.

Interim City Manager Jesse T. Wallace and City Attorney A. Paul Burton were also present.

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Food and Beverage Agreement for Hampton Roads Convention Center

The City Attorney advised Council that John Q. Hammons Hotel, who has the food and beverage agreement for the Convention Center, has formed a Virginia Corporation (Hampton Catering Company) to apply for an ABC permit and the ABC Board is requiring that the new company have control over the food and beverage services; therefore, he recommended that the Interim City Manager be authorized to execute an agreement for this assignment.

On motion of Councilman Gilliland, seconded by Councilwoman Leary, that the City Manager be authorized to execute the assignment of the food and beverage agreement for the Hampton Roads Convention Center from John Q. Hammons Hotel to its Virginia Corporation, Hampton Catering Company.

On a roll call on the motion resulted as follows:

Ayes: Gilliland, Leary, Sapp, JSpencer, TSpencer, Tignor

Nays: 0

Absent for vote: Kearney

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FY2006 Budget Retreat Presentations

The City Manager provided Council with a copy of an article from the Daily Press, which has information about the recommended City Manager's budget for the City of Newport News.

The Interim City Manager stated that this is the final budget retreat and the FY06 budget is substantially completed, and he stated that the overall projected increase in general fund revenue is 9% or \$20.2 million and the real estate assessments are

growing at an average of 20.1%. The Interim City Manager recommended a real estate tax decrease of 2 cents and stated he will have a proposal for the tax relief for the elderly program when the recommended budget is submitted.

Interim City Manager stated on the expenditure side of the budget equation our base budget is increasing \$1.2 million, the local contribution to schools is increasing to \$4.2 million, and the debt service will increase \$3.6 million; and he explained that the proposed budget will have several new initiatives and the following new positions: five new police officers to be assigned to the Crime and Grime Program, three fire battalion chief positions, one ambulance mechanic, two positions to support Economic Development (one Redevelopment Manager and Planner, and one additional real estate officer to support the Crime and Grime Program), one public works mechanic, and one auditor. The Interim City Manager also suggested a competitive pay increase for sworn police officers and fire fighters of 8% with a \$2,500 cap, and a general pay increase for other city employees of 2% with a \$1,000 cap.

Preliminary Revenue Projections

Mr. Karl Daughtrey, Director of Finance, stated that for FY06 we are projecting \$252.3 million in General Fund revenue, an increase over 2005 of \$20.2 million for a 9% increase. In developing the revenue estimates, he explained that the City staff worked with the Commissioner of Revenue and the City Treasurer in developing the preliminary projections, incorporating the growth expected from new business activity but not discounting the projections for the potential impact of the Coliseum Mall closing at the end of the calendar year.

Mr. Daughtrey stated that general property taxes are projected to be \$136 million, a \$15.6 increase over 2005, or 13%, based on the estimated of growth in assessments of 20.10%, most of which is attributable to reassessments with only .83% related to new construction. In response to a question from Councilman Tignor, Mr. Daughtrey stated that there were some tax categories that decreased

Regarding personal property taxes, Mr. Daughtrey stated that we are seeing a recovery from the decline we anticipated in 2005 and personal property tax revenues are expected to be \$27.2 million, which is at the 2005 budget level; and he explained that initially we were expecting about a \$2 million decline because of a significant depreciation in the used car market, but an increase from new car sales has offset the depreciation in used cars sales.

Mr. Daughtrey stated that business personal property is expected to grow by inflation, the projected ratio of collections for personal property is about 85%, (which is consistent with past trends), and machine and tool taxes are expected to decline by \$.4 million for FY06.

Mr. Daughtrey projected that real estate taxes will generate an additional \$17.5 million, delinquent taxes will decrease by \$1.1 million, public service corporations will decrease of \$.5 million, and machine and tool tax will decrease by \$0.1 million for a net increase of \$15.6 million.

Mr. Daughtrey then reviewed the following:

- Sales taxes are estimated to grow by 5.4% or \$679,000
- Meal taxes are projected to increase by \$790,000 or 6.4%
- Lodging taxes are projected to grow by 8.5% or \$234,000
- Business license taxes are estimated to increase by \$247,000 or 3%
- Tobacco taxes are projected to decline by \$456,000 or 10%
- Fees and charges for services are projected to increase by \$1.3 million or 17%
- Revenues from Use of Money and Property are projected to increase by \$88,000 or 12%
- State and federal Revenues are projected to increase \$1.5 million or 3%

In summary Mr. Daughtrey reviewed the following projected increases for FY06:

- General property taxes: \$15,652 million, a 78% increase in revenue
- Other local taxes: \$1.7 million, an 8% increase
- Fee and charges for service: \$1.3 million, a 6% increase
- Revenues use of money and property: \$88,000, a 1% increase
- State/Federal revenue: \$1.5 million, a 7% increase

In response to questions posed by Council, Mr. Daughtrey stated that the general property tax funds about 68% to 70% of the budget, and we do not propose an increase in sewer or solid waste fees in this budget.

Preliminary Real Estate Assessment

Mr. Ronald D. Agnor, City Assessor, appeared before Council with Susan Cunningham, Real Estate Assessment Manager, to review the following changes in real estate assessments:

- Change from 7/1/03-4/4/04 and 7/1/04-4/4/05 in residential properties: increase of 258 sales, an increase in \$25,562 in average list price, an increase of \$25,959 in average sales price, and a decrease of 9 days in average marketing time
- Percentage Changes in 2006 Assessed Value: 16.0% for all parcels, 22.9% for residential, 10.9% for commercial, 14.9% for apartments, 4.5% for exempt properties, for a total of 20.1% for all taxable properties

Historic Assessment showing an increase from \$5.6 billion in 1991 to \$10.9 billion in 2006

Percentage change of taxable assessments from 3.2% in 1996 to 20.1% projected for 2006

Taxable property value allocation from 1995 to 2006 showing little change (1995: 20.5% commercial, 7.1% apartments, 72.4% residential; 2006: 19.3% commercial, 7.6% apartments, 73.1% residential)

Percentage change in residential value by fiscal year from 1990 to 2006 with an average increase of 10.6% for 5 years, 6.25% for 10 years, and 5.22% over 15 years

Percentage increase in taxable value for FY06: \$22.6% for residential, 7.9% for commercial, and 14.9% apartments for a total of 19.3% existing property and .83% for new construction for a total of 20.1%

Residential increases for FY06 in surrounding jurisdictions: 22.9% for Hampton, 13.4% for Portsmouth, 16.0% for Suffolk, 19.2% for Chesapeake, 22.4% for Virginia Beach, and 20.0% for Norfolk

Mr. Agnor noted that changes in the real estate market have been remarkable in the last few years, which has presented new challenges in assessments since the changes vary from year to year, and he then reviewed six residential properties sold in Hampton twice during the last two years where market appreciation ranged from 34% to 51%.

In response to questions raised by Council, Mr. Agnor stated that our assessments have not increased as fast as some of the surrounding localities but we are beginning to catch up, assessments for Newport News and James City County have not been completed yet, and assessment increases in Hampton have ranged from zero in some areas, 3% in others, and as much as 50% in others.

EMS Recovery Fee Proposal

Assistant City Manager Mary Bunting advised Council that the City may be able to change its charges for ambulance services based on Medicare rates, and she reviewed the City's current system to recover expenses for Emergency Medical Services (EMS):

EMS recovery fees were implemented in the FY04 budget

Primary goal in implementing the fee was to collect the insurance dollars available for ambulance transport

Medicare sets the standards for insurance billing practices – once a locality is approved for Medicare billing, other private insurance companies pay as well

Have been collecting revenue since December 01, 2003

Estimated annual return \$1.2 million

All funds go to support the Fire & EMS Division

Ms. Bunting stated that the \$1.2 million annual return is based upon a 65% collection ratio, and she explained that we are charging two levels of fees: basic life support transport at \$200 per transport and advanced life support at \$270 per transport, based upon the 2003 common industry practices. In addition to these fees, Ms. Bunting stated that Council had adopted a subscription program that allowed residents to avoid repetitive co-payments by paying \$48 a year per household, noting that about 126 households have taken advantage of the subscription program, primarily elderly residents who have major medical issues.

Ms. Bunting advised Council that we have an opportunity to increase the above rates, charge for mileage, and waive the taxpayer's co-payments and deductibles for the EMS; and she stated that based on current EMS fees, the following changes would result in at least \$1.5 million more in transport charges and \$234,000 for mileage:

- Basic life support transport: \$375
- Advanced life support transport, level 1: \$475
- Advanced life support transport, level 2: \$575
- Mileage charge of \$8.00 per mile driven in transport

Ms. Bunting then reviewed the following challenges:

- We need to get Medicare approval for the new structure
- Medicare approval requires an application and lengthy review period
- Other insurance companies will not pay the higher fee schedule until approved by Medicare
- We do not know how many months, or how much money, we can realistically predict for the FY06 budget year if Council approves the new rates

In response to questions from Vice Mayor Joseph Spencer and Councilman Gilliland, Ms. Bunting stated that Newport News is using the new rates in their FY06 budget, but they have not received approval from Medicare yet. In order to proceed with this proposal, Ms. Bunting stated that we would need to approve the higher transport rates and mileage charge as part of the FY06 budget process with the caveat that such charges will not be assessed until Medicare approval is granted, plus adopt an ordinance clearly outlining Council's intent to accept current general fund tax dollars supporting the Fire & EMS Division as fully satisfying any resident responsibility for co-payments and/or deductibles.

In response to questions posed by Council, Ms. Bunting stated that the new rates must be approved by Council before December 31, 2005, but we cannot change them until approved by Medicare. Ms. Bunting stated that the existing fee schedule was used for the FY06 budget, but if extra money is received because of the new rates, the

money could be used for additional operational expenses associated with routine ambulance maintenance and depreciation.

Councilman Tignor stated that he would like the Fire Chief to look at some way of rewarding our volunteers because they are losing a lot of fund-raising ability, and to encourage them to continue volunteering. Mayor Kearney agreed but noted it will get harder and harder to have EMS volunteers because of the regulations and training that is required.

Local Contribution to Schools

In reference to the local contribution to the schools, Ms. Bunting stated that using the initial projection of 13% assessment growth in our local funding formula produced a local contribution of \$2.2 million, and the Schools projected a 5% teacher salary increase and 3% for the rest of the workforce. If the number is closer to \$4.2 million based on actual assessment growth, Mrs. Bunting stated that they would be able to propose a 7% teacher salary increase.

In response to Councilman Gilliland, Ms. Bunting stated that the 7% increase would place Hampton teachers in the middle in respect to other localities, and she stated that the rate is based on \$1.23/\$100 of assessed value. Vice Mayor Joseph Spencer said that he is not disputing that the teachers need a salary increase; but he did express concern that the tax may have to be reduced more than that since the assessments are higher than expected, pointing out that we have to remember where the money is coming from and the impact it has on our citizens. Councilman Tignor stated that he is not in favor of raising the homeowner's tax burden 18% this year on top of 20% in the last two years, and Ms. Bunting said that the budget is based upon what we thought the needs were. Mayor Kearney stated that Council will have to make the decision to reduce the tax rate.

Councilman Sapp expressed his opinion that it is critical to fund the increase for teacher salaries and suggested changing the formula so that the assessment could be reduced but the school contribution would not change, and Ms. Bunting stated that Council can always give more than the amount reached by the formula. Councilman Gilliland reminded Council that the amount given through the formula is not the only city contribution when debt service is considered. Councilman Tignor requested information on the cost per student for Hampton and surrounding localities.

Utilization of Net New Revenues

Ms. Chris Snead, Director of Budget and Management Analysis, reviewed with Council the proposed use for the \$20.2 million in new revenue as follows:

- \$1.5 million to reduce the tax rate by 2 cents
- \$1.2 million for base budget increases
- \$4.2 million for Schools
- \$3.6 million for Debt Service
- \$2.9 million for Capital Budget Requirements
- \$5.5 million for Compensation
- \$2.1 million for Support to Other funds
- \$993,076 for Organizational Support
- \$295,193 for Contribution to Agencies
- \$1.5 million to enhance Operating Departments
- \$3.8 million in internal budget cuts

In response to questions raised by Council, the Interim City Manager's staff explained that the:

- 2+2 Funds for the Convention is the revenue received from the meal and lodging tax
- E-911 needs funding above what is raised by the fee
- A bonus is recommended for members of the SWAT team, medics, and dive team as recognition of their special service in lieu of additional compensation
- Contracts were executed in January for advertising on the back of city trucks and a policy is being developed for the advertising

Following discussion of the proposed use of new revenue, members of Council asked for the following information: comparing anticipated to actual income received for the 2+2 Funds, 911 fees and how they are being spent, and a more detailed breakdown of funding for outside agencies and what benefit the City receives from the contributions made.

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Recess

Following the discussion on net new revenues, the City Council recessed at 3:10 p.m. and reconvened at 3:35 p.m.

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FY06 Compensation Package Summary

Ms. Dianne Foster, Director of Human Resources advised Council that the budget proposes the following salary and benefit recommendations:

Competitive Salary Ranges

Adjust pay ranges and salaries:

- Public Safety Employees: 8% up to a maximum of \$2,500
- General Employees: 2% up to a maximum of \$1,000
- Estimated cost: \$2,422

Merit increase

Merit increase based on each employee's annual performance review
Estimated cost: \$2,273,206

Health Insurance

City and Employee share of premiums increase by 11%

Employee co pays increase

- Specialist Office Visits – from \$25 to \$30
- Outpatient Surgery – from \$50 to \$100
- Prescription Drugs – from \$10/\$20/\$35 to \$10/\$25/\$40
- Gastric Bypass Surgery – no longer covered
- Cost to City: \$849,756

Ms. Foster stated that she did contact other localities and Newport News is going to give a 3% general increase for all employees and a 3% merit increase, and Portsmouth and Norfolk are considering a 3% general wage increase for all employees.

Ms. Foster stated that the monthly increase for health insurance for Employee Only is \$7.74 a month, Employee + Minor \$14.30 and Employee + Family is \$32.38, and she reviewed examples of salary changes for employees based on these proposals.

Ms. Foster stated that the average merit increase is 3.5%, and Councilman Tignor stated that this is going to give our employees an average of a 5% increase in salary. Vice Mayor Joseph Spencer asked if the employees realize the additional benefits they will receive, and Ms. Foster said that they are trying to provide the employees with more information on the total compensation package, showing everything the City is providing. Councilman Tignor asked Ms. Foster to provide Council the general wage increase for employees in the local areas.

The Interim City Manager invited Council to comment over the next few days as the staff begins the final phase of developing the proposed budget, and the City Attorney stated the dates for the budget meetings are April 27, May 4 and May 11.

Councilman Gilliland recommended an additional \$153,000 for the Economic Development Department for an existing business program, and Councilman Sapp stated that the City may want to participate with the technology incubator with NASA and NIA. Councilman Turner Spencer suggested that the Information Office in the Lobby be re-opened with volunteers

Ms. Katherine Glass, Clerk of Council, stated that we had our first youth volunteer, Zack Owen, a 10th grade student at Bethel High School, spend about 2 1/2 hours updating code books, and Mayor Kearney and Councilman Turner Spencer

suggested there may be other jobs within the office and throughout the City that students and senior citizens could help with.

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05-0214: Closed Session

On motion of by Vice Mayor Joseph Spencer, seconded by Councilman Tignor to convene in closed session as provided in Section 2.2-3711A.1 of the Code of Virginia to review consultant bids for City Manager.

A roll call vote on the motion resulted as follows:

Ayes: Gilliland, Leary, Sapp, JSpencer, TSpencer, Tignor, Kearney

Nays: 0

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05-0218: Resolution certifying closed session

WHEREAS, the City Council of the City of Hampton, Virginia, has convened a closed session on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3712D of the Code of Virginia requires a certification by the City Council of the City of Hampton, Virginia, that such closed meeting was conducted in conformity with Virginia Law;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Hampton, Virginia, hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed session to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed, or considered by the City Council of the City of Hampton, Virginia.

On motion of Vice Mayor Joseph Spencer, seconded by Councilman Tignor, that foregoing resolution certifying the close session as provided in Section 2.2-3711A.1 of the Code of Virginia to review consultant bids for City Manager Search be approved.

A roll call vote on the motion resulted as follows:

Ayes: Gilliland, Leary, Sapp, JSpencer, TSpencer, Tignor, Kearney

Nays: 0

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Adjournment

There being no further business to come before the Council, the meeting was adjourned at 3:50 p.m.

Ross A. Kearney, II
Mayor

Katherine K. Glass
Clerk of Council

Dated approved by Council: April 27, 2005